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Remarks by Tony Tyler - Annual General Meeting, International Federation of Air Line Pilots' Associations (IFALPA)

Good morning. It is an honor to address this very important organization, which has done so much to advance the causes of safety and security. IFALPA's history dates back almost as far as that of the International Air Transport Association (IATA) and we share a long tradition of working together to improve aviation and in doing so, to drive positive change for the world.

In nine months we will celebrate the 100th anniversary of the first scheduled airline flight, which took place on 1 January 1914 between St. Petersburg and Tampa, Florida. I'm confident that all in this room agree that it is completely appropriate that we remember the name of the pilot—Tony Jannus—far better than the name of the airline itself, the first passenger, or the person who conceived and financed the project! Unfortunately, the St. Petersburg-Tampa Airboat Line existed for only a few months, thereby beginning a well-known industry phenomenon which has stayed with us for 99 years—the short-lived start-up airline.

Joking aside, we can all be proud of the achievements of commercial aviation's first century. This year our industry will safely and securely transport some 3 billion people and 48 million tonnes of cargo. This activity supports 3.5% of global GDP equivalent to \$2.2 trillion annually and transports around 35% of world trade by value, or around \$6.4 trillion. We deliver goods to markets, connect people to business and reunite family and friends. And by bringing people of different cultures together, we foster opportunities for understanding and friendship.

But we are challenged in turning the great value that we create as an industry into consistent and sustainable earnings for ourselves and airline shareholders.

Outlook

This year is no exception. We expect a 1.6% net profit margin. That's \$10.6 billion in profits on revenues of \$671 billion. And it does not even cover our cost of capital. Every airline CEO wants to grow their business—to add new staff, aircraft, and routes. But, as with any commercial activity, airlines must earn the right to grow by generating profits consistently over time. As an industry we have not done that.

Since 2003 airlines generated about \$5 trillion in revenues. But we struggled to cover costs and the industry barely broke even with a net margin of only 0.1%. There's no denying it—we work in a very challenging business. And everyone involved in the airline industry—and the value chain for that matter—must keep that in mind. Knowing that I am addressing you today, my members will want me to remind you that pilots are no exception.

Industrial relations are not an easy topic—and not one that I want to get into detail today. But if you look back over the \$5 trillion break-even decade, you will see change in every aspect of our business. That airlines are making even a small profit this year—with weak economies and jet fuel around \$130 per barrel—is evidence of the enormous improvements and efficiencies that have been achieved through hard work and sacrifice—including by pilots.

We might all wish that we could sit back and enjoy a period of prosperity as a result. But with a 1.6% net profit margin that's not the case. Airlines can and do go bust. We saw that with Malev, Spanair and others last year. The only way to ensure sustainable companies and employment is with constant improvements in productivity—and everybody needs to contribute—from those in the head office, to those who sell tickets, operate the check-in counters or fly and maintain the airplanes. To sustain our companies and the employment that they provide we all need to be willing to continue to change, adapt and constantly improve.

I leave that point with you to think about. And perhaps there may be some questions afterwards.

Today's Agenda

In the meantime, I would like to commence my main remarks by highlighting areas where IATA, IFALPA and the International Civil Aviation Organization (ICAO) have cooperated successfully:

1. We agreed and published the Fatigue Risk Management Implementation Guide for Operators
2. With the Royal Aeronautical Society our organizations created the International Pilot Training Consortium that will establish a common set of pilot training, instruction and evaluation standards and processes
3. And next month ICAO will publish Guidance Material and Best Practices for Evidence-Based Training Implementation, a cooperative effort between our organizations

These achievements—in some very critical but difficult areas—illustrate how industry, regulators and employees are working together to change the industry for the better. With that in mind, I would like to focus the rest of my remarks on four areas where IATA and IFALPA and our respective members must continue to work together for the common good of a sustainable aviation industry, specifically:

1. Safety

2. Security
3. Efficiency, and
4. Environment.

Safety

Our top priority is safety. Last year was the safest ever, with an average of just one Western-built jet hull loss for every 5 million flights. IATA's 240-plus member airlines recorded no Western-built jet hull losses in 2012. In fact, there were no Western-built jet hull losses among the 380+ airlines on the IATA Operational Safety Audit (IOSA) registry.

What makes our industry so safe is the commitment of everyone involved in aviation—at every level—to make each and every flight as safe as it can be. Airframe, engine and systems manufacturers give us fantastic machines. And you and your colleagues—with tremendous dedication and professionalism—fly them safely under the equally dedicated care and professionalism of air traffic controllers and our industry's regulators. And guiding all of this are global standards built through cooperation and common purpose in global institutions such as ICAO, IATA and others.

Of course every accident is one too many. And the challenge is always to do better.

There are, for example, gaps in safety performance between regions which much be addressed. It is no secret that the biggest gap is in Africa. Compared to a world rate of 0.20 Western-built jet hull loss accidents per million sectors in 2012, Africa's rate was 3.71.

To address this situation, IATA joined with IFALPA and other aviation stakeholder groups in support of the Africa Strategic Improvement Action Plan. The Plan was endorsed as part of the Abuja Declaration and ratified at the Assembly of the African Union in January 2013. The goal is to achieve world-class safety levels in Africa by 2015.

It won't be easy. But we know that world-class safety is possible in Africa. African airlines on the IOSA registry, for example, had no accidents with Western-built jet aircraft in 2012. And even if we look at all aircraft types, the performance of IOSA-registered African airlines was in line with the global average. That is why one of the key elements of the plan centers on IOSA—making it mandatory for airlines registered in the African Union by 2015.

As with safety in general, we will only be successful in Africa with a team effort. The Abuja Declaration demonstrates the political will to improve. But it will take a team effort—including IFALPA, IATA and many others—to deliver the results.

Our commitment to raising the bar on safety is not limited to Africa. Constant improvement—across the board—is imperative.

1. As discussed, IOSA is an effective global standard that is helping to improve

safety. Now we are introducing the Enhanced IOSA (E-IOSA). This augments compliance to the audit's 900+ standards with a further dimension of internal quality assurance programs with a self-auditing methodology. With industry support, including IFALPA's, we are moving ambitiously to transition to E-IOSA over the next few years.

2. Recognizing that data will guide our safety efforts, next year we are going to launch the Global Aviation Data Management (GADM) portal. Already IATA's Global Safety Information Center's (GSIC) six databases benefit from 830 information feeds contributed by some 420 organizations. As 85% of IATA members use the database, I am sure that you are familiar with it. If you are not, I would encourage you to talk to our SFO Data team or Guenther. The GADM portal will make GSIC an even more powerful tool by incorporating other sources for operations, infrastructure, security and auditing.

There are no limits to where cooperation on safety can take our industry. Cooperation for constant improvement is a promise that we have made and kept for nearly 100 years. And I am sure that will continue into the future.

Security

Safeguarding aviation's sustainability also means keeping terrorists off airplanes. Like safety, flying today is more secure than it has ever been. But there are two key differences. First, the challenge on safety is largely technical while the security threat is constantly evolving and subject to geopolitical developments far beyond our control. And second, while our efforts on safety are largely invisible to the passenger, the approach that we have taken on security comes with a heavy price in terms of customer dissatisfaction.

Passenger numbers have nearly doubled since 2001. And they will likely double again by 2030. The vast majority—probably much more than 99.99999%—of these passengers pose no threat. But we treat them all alike—as we do some of our most trusted employees. This one-size-fits-all proscriptive model for security is not sustainable. If we don't evolve it, the system will grind to a halt under its own weight; in fact it is already slowing. Before 9.11 the average checkpoint processed 350 passengers per hour. Today it is below 150.

Resources are being stretched. The US Transportation Security Administration admits it is concerned that we are running out of space to accommodate the growing footprint of the security areas at airports.

If we are struggling just to manage the process, at some point we will lose the ability to stay one step ahead of how the threat is evolving.

That's why we need a risk-based model. This concept underlies the Checkpoint of the Future project, an industry initiative supported by IATA. Risk-based security is about making better use of the information that is available to assess the likelihood that people, objects or situations can pose threats. Once we have the ability to make assessments, it becomes possible to use differentiation to

ensure that resources are deployed where they will have the biggest impact on reducing risk. Differentiation is only possible if you have the information for risk-based decisions.

This can be achieved by using information that is already being provided to governments for purposes of border control. Advance Passenger Information (API) and Passenger Name Record (PNR) information could also be used to provide automated guidance for decisions on the level of screening each passenger receives. Known traveler programs are examples of using a risk-based approach to improve the efficiency and security at airport checkpoints.

Another example is the known crewmember program that is of particular interest to your members. We are working to bring this model to flight crew for international flights. IFALPA and its member organizations can become strong advocates in favor of this important initiative and we would welcome your support to move it forward—it is certainly in all of our interests to do so. I also would like to encourage IFALPA to consider participating in the expert groups currently working to develop the Checkpoint of the Future. I believe that your members could make a valuable contribution to the process.

Efficiency

I would also like to encourage IFALPA and its members to continue their very important work to improve operational efficiency, which is so important both to achieving our aggressive environmental commitments and to reducing waste that drives up operating costs. Safety is the top priority—and will never be compromised. But every operational decision that saves on fuel benefits the bottom line for both our financial and environmental performance.

One very exciting opportunity is Paperless Aircraft Operations—in the cockpit, in the ops center, in the maintenance hangar. This will extend the efficiencies generated by Electronic Flight Bags (EFBs). IFALPA's members helped tremendously with the introduction of EFBs and tablet technology to the cockpit. I am sure that you will play an equally important role in helping to navigate the challenges of extending this across flight operations procedures.

As we search for further efficiencies internally, we also need to ensure that our infrastructure partners are doing the same—particularly air navigation service providers (ANSPs). At the tactical level, most ANSPs are very good at using the tools they have to enable us to fly the most efficient routes available, and the controllers are highly qualified. Our work to implement Performance-Based Navigation (PBN) provides an excellent example of cooperation. I know you are as excited as we are about the safety, reliability and efficiency gains realized from this effort. But we need to think bigger. On PBN, the challenge is to progress on a faster timetable. And if we think globally about air traffic management, the challenge is to translate individual efficiency improvements into systemic gains.

Europe needs the Single European Sky (SES), but progress is glacial. The European Single Sky Committee's recent decision to endorse weakened Performance and Charging Scheme regulations for ANSPs over the period 2015-2019 is a huge setback in the much needed drive to deliver the efficiency improvements aviation needs. The failure to implement the SES in Europe costs airlines, air travelers and the overall economy 5 billion euros per year and wastes some 8.1 million tonnes of CO2 per year—and it hurts our ability to grow.

Looking beyond Europe, I know that some of you--as well as IATA--are heavily involved in the planning and implementation of the Federal Aviation Administration's (FAA) NextGen project through participation on the NextGen Advisory Committee as well as the working groups. We are excited about the potential, but before committing to spending billions of dollars on new cockpit technology, we need to be sure that the benefits will exceed the equipment and training costs.

I'd like to mention an exciting project done in cooperation with FAA that will become even more valuable as NextGen is implemented. We have established an IATA Liaison Desk at the FAA Command Center in Northern Virginia and today we are going live with the IATA Tactical Operations Portal (ITOP), the web platform for collaborative, tactical air traffic management, supporting the IATA Liaison Desk. These two programs will allow us to be the eyes and ears for your airlines, keeping them abreast of developments that will affect them—and you--and helping to coordinate work-outs that minimize impact on operations.

This new position is somewhat analogous to our desk at Eurocontrol's Central Flow Management Unit, which has proven to be very successful over the past decade. We are also working with the Chinese authorities to establish an equivalent position in their air traffic control unit.

Environment

As we drive efficiency gains, we improve environmental performance. Aviation represents 2% of global manmade carbon emissions. In 2012 we estimate that amounted to 677 million tonnes of CO2. Our license to grow is contingent on our ability to do so sustainably. That is why we have committed as an industry to:

1. Improve fuel efficiency by 1.5% annually to 2020
2. Achieve carbon-neutral growth from 2020 (CNG2020), and,
3. Cut our net emissions in half by 2050 compared to 2005 levels.

As far as I am aware, no other global industry has made such ambitious commitments. To achieve these targets, we need a combination of improvements to technology, operations and infrastructure along with access to market-based-measures (MBMs), such as emissions trading. And, as aviation is a global industry, we need a global framework for MBMs in order to keep the playing field as leveled as possible.

We continue to make good progress on technology, operations and infrastructure

efficiencies. But finding a global approach for market-based-measures is proving more challenging. The European Union's Emissions Trading Scheme (EU ETS) was problematic. The decision to "stop the clock" on extending ETS to international aviation provides an excellent opportunity to achieve a global solution through the processes of ICAO. The focus is on the Assembly later this year. But achieving a global agreement on a workable scheme will require compromise. Many of the states that were helpful in stopping the EU's plans will now need to be equally dedicated to finding a solution.

The industry wants a global agreement on MBMs. To provide as much support to governments as possible, our Board of Governors has tasked IATA to facilitate a unified position among airlines on how to most fairly share the burden of CNG2020. That will not be easy. The implications will be very different for airlines in a high growth phase than for those in more mature markets, for example. Of course there are real world consequences to any agreement, as I am sure you are aware. Even if MBMs are only a gap-filling measure as we move forward with technology, infrastructure and operational solutions mature, the costs of MBMs for CNG2020 will be measured in the billions. So the industry is engaged in a robust discussion of all the options. Compromises by all will be required.

I am convinced (as is our Board) that an agreed compromise among airlines—in other words a united position—is possible and will stand the industry in the best position to getting a fair and global deal on MBMs by governments. The next months will be critical in this process.

Conclusion

IATA's vision is to be the force for innovation and value creation driving a safe, secure and profitable air transport industry that sustainably connects and enriches our world. That's a big vision. And it can only be achieved through cooperation and with strong partnerships.

IFALPA is an important partner. As we prepare to celebrate 100 years of commercial airline service, let us re-commit to working together to make aviation even safer, more secure, more efficient, more environmentally friendly, and yes, more profitable in aviation's second century.

Thank you